

H78-67

Arlon R. Tussing

1973

Chamber of Commerce meeting

Fairbanks, Alaska

Meeting starts with the invocation and introduction of guests. The manager's report is read. Arlon Tussing is introduced.

Arlon remembers his last talk before the Chamber of Commerce in 1970 when he talked about why there would be long delays for a pipeline. Today he won't predict long delays. Vice-president Agnew had been instrumental in the legislation for the Alaska petroleum pipeline. He will be talking about economic development in Alaska and not just the boom associated with the pipeline. He said an area's economic growth is directly related to the growth of its basic industries: the industries that bring in outside money by selling commodities outside. In Alaska that means oil, timber, and fisheries. Or which bring in outside money for services performed here for outsiders like defense and tourism. Many people believe that there is an employment multiplier in support businesses, but it is difficult to measure. In Alaska there is a figure of one half job in support sectors with each new job in the industries. He said that about a third of the earned salary of workers is kept in Alaska. The total amount after it has been respent is about equal to one-half of a job. Rapid economic growth in a place like Alaska that has a small population and a mobile workforce does not reduce unemployment. On the average historically there are usually equal amounts of people coming to look for jobs as there are jobs available. By and large it evens out. There may not be anything that Alaskans can do to reduce the average unemployment rate of 8-11 percent. A local hire preference on the pipeline itself or in the industries that the state has control over won't necessarily protect the interests of local workers in this situation. It just intensifies competition for the jobs in the unprotected sectors of the economy. Arlon talked about the oil boom that occurred on the Kenai in the late 1960s. The climax of development drilling in the oil and gas fields there occurred about the same time as the construction of the gas liquefaction plant, the fertilizer plant, the construction of the Tesoro refinery and the enlargement of the Chevron refinery. There was a real boom that peaked in 1968. Average employment related to petroleum increased from less than 200 to a peak of 3,000. It then fell steadily to around 1,000. During the period of increase unemployment increased by ½%. When the boom was over unemployment soared to about 1,000. At the end of 1970 there were as many people employed in the oil related industries as there were unemployed people. Over half of the unemployed could be

attributed directly to the boom. There a lot of things that booms don't influence. Average wages don't seem to be sensitive to booms. Certain occupations have an influence on the increase in wages. Generally there is no shortage of labor. Service and clerical salaries level off. Prices in general don't seem to respond to booms. Fear of inflation may not be warranted. Rents are affected but housing values tend not to be affected. Land values may go up rapidly. Growth of employment, sales and economic activity in general in the state of Alaska since the 1960s has been considerable. The growth of total employment has averaged 7% per year. It has been sustained through the whole period. It has not been directly traceable to the growth of our economic basic industries. The basic industries are: the federal government, oil and gas, wood products and fisheries. Every one of these has been stagnant or declining in recent years. The rest of the economy has been healthy. Changes in average employment. Oil and gas industry has declined statewide since 1970. It is just about half of what it was in 1969. Federal employment has leveled off. Military employment has declined. Wood products have just bounced along. Fisheries have been in decline. Total employment in the state has been increasing steadily. There is no sign of depression. The oil industry was not in any direct way the engine of growth in the state's economy. Nor was there any other industry or group of industries that can be pointed out. In Fairbanks the oil industry's impact like the impact of the federal government in the past can be seen best by construction expenditures. A lot of people believe that the lifeblood of the community is based on construction. There has been a distinct and steady recession in construction since 1970. It increased in only two quarters. Total employment fell off in only two quarters. And the whole period has an average rate of growth of six percent. Fairbanks basic industries are the military and the university. Neither of which is an adequate explanation for the healthy employment growth in this region. There is a momentum in economic growth in Alaska and in Fairbanks that does not depend on the timing of the pipeline or any other specific industrial development project. This momentum is probably more important in the growth than any specific project. These projects themselves have relatively small multipliers, but there's something else going on. One of the implications of this is the alternation of economic euphoria and economic despair is not justified by the economic facts. Fairbanks is not such a boom and bust subject community and there is a strong and continuing current of growth. There are things that keep the state's economy growing despite the decline in almost all the basic industries. One is the state's spending of bonus money received from the North Slope lease sales in 1969. Sustained growth in this instance is an indirect effect of a pipeline that hasn't been completed yet. We can see this sustained growth before 1969. The military construction as a growth industry peaked out in 1956. Another cause of this growth is the expansion and deepening of the economic support sector as improved retail trade facilities, expanding service and the upgrading of the housing of Alaska residences. The big action has been in trade and services. And the big action in construction has been residential construction. By far the bulk of this growth in employment and business receipts in the state and in Fairbanks has taken place in trade and services. Alaska is catching up with the rest of the country becoming a more comfortable place to live that offers more of the amenities of the modern life. And as it does all those things a bigger

proportion of each dollar received in Alaska tends to stay here. The employment multiplier tends to grow over time and a small increase in the size of the employment multiplier has more leverage on total employment than a comparable increase in the number of people employed in basic industry. The third element in Alaska's sustained growth: the investment that is taking place in the support sector is not aimed at cleaning up a pile during a construction boom of two or three years, but an investment for the long run and depends upon a broad and an optimistic view of the state's development opportunities. It was the boom and bust mentality and attitude of investors toward Alaska in past years that tended to discourage permanent investment and discourage investment in amenities in the quality of life. Investors recognize that the economy is here to stay and there are these basic growth forces that make it possible to invest in something that can't be amortized for seven to fifteen years. For the Anchorage area there is almost no relationship between the ups and down in the economic base and the steady growth in the economy. The smaller the community the more sensitive it is to its peculiar local industries. The critical element in the state's growth is faith in future growth. This faith rests in part, but only indirectly upon the pipeline. The takeoff to sustained growth took place before the Prudhoe Bay discovery and would have continued without it. He named the jet plane as the catalyst to Alaska's development and guarantees that growth will continue. It allows people to get into and out of Alaska quickly, cheaply and comfortably. Two things are conspicuous guarantees of growth in the next ten years: first, the worldwide crunch on industrial raw materials. He discusses different countries and their consumption of material goods. The economics of Alaska's remote resources changes considerably. This is an important place to invest. The second guarantee of sustained growth is the great fashion and popularity in the U.S. and the industrialized world of wilderness, clean air and clean water. They will be a growth resource and attraction. He discusses the D-2 issue. Three states have taken an anti-growth stance. These same states are attractive to people and commercial interests. He believes Alaska's environmental amenities will attract a more skilled, more prosperous, and more enterprising brand of immigrant. He recommends less focus on the individual projects and looking at the quality of life for the community. The biggest enemy to Fairbanks development is not the EPA's restrictions, but the areas complacency to a real problem. The existence of the route from New York to Tokyo flight is an enormous asset to this community. A critical handicap to growth is communications. Zoning, planning, paving of streets and sewer are important, too. The psychological climate is important, too. The hostility to outside advice is another obstacle to growth. He recommends being a little more far-sighted and developing the community we want to live in.